

**DEPARTMENT OF MENTAL HEALTH,
RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
REPORT ON CONTRACT COMPLIANCE
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002**

**DEPARTMENT OF ADMINISTRATION
BUREAU OF AUDITS
ONE CAPITOL HILL
PROVIDENCE, RI 02908-5889**



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
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DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
REPORT ON CONTRACT COMPLIANCE
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

EXECUTIVE SUMMARY

Based on our contract compliance engagement for the fiscal years ended June 30, 2003 and 2002 we determined the following:

1. Noncompliance with a provision contained within the Community Support, Residential and Acute Alternatives Services contract.
2. Deficiencies with the management of Representative Payee client funds.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

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August 31, 2004

Ms. Kathleen M. Spangler, Acting Director
Department of Mental Health, Retardation and Hospitals
Barry Hall - 1
14 Harrington Road
Cranston, RI 02920-3080

Dear Ms. Spangler:

We have completed an examination of the contracts between the Department of Mental Health, Retardation and Hospitals (MHRH) and the Providence Center, Inc., for the fiscal years ended June 30, 2003 and 2002.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 of the General Laws requires the Director of the Department audited to respond in writing within sixty days to all recommendations made by the Bureau of Audits. A copy of your reply should also be sent directly to Ms. Beverly E. Najarian, Director, Department of Administration and to the Honorable Steven M. Constantino, Chairperson of the House Finance Committee and to the Honorable Stephen D. Alves, Chairperson of the Senate Finance Committee.

We wish to express our appreciation to the officials of the Department of MHRH and to the Director and staff members of The Providence Center, Inc., for the assistance, cooperation and courtesies extended to us during the course of this examination.

Sincerely,

H. Chris Der Vartanian, CPA
Chief, Bureau of Audits

HCD:pp

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

INTRODUCTION

Objectives, Scope, and Methodology

The purpose of this examination was to determine compliance with your department's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers to the Matching Grant Contracts and with the terms and conditions contained within the Community Support, Residential and Acute Alternative Services Contracts as to:

- whether revenues were matchable or nonmatchable;
- total matchable revenue used as the basis for funding fiscal years 2005 and 2004;
- whether reported revenues were accurate; and
- any over or under funding on behalf of the Department of Mental Health, Retardation and Hospitals.

Our examination of the financial records included verification of revenues and expenses through testing procedures to the extent we deemed necessary in the circumstances. Occupancy requirements and resident contributions were examined for adherence to contract specifications. Client fund management was reviewed for conformance with applicable policies and guidelines.

Background

Section 40.1-8.5-6 of the General Laws of the State of Rhode Island authorizes the Director of the Department of Mental Health, Retardation and Hospitals (MHRH) to make grants to community mental health centers to provide mentally disabled adults services which shall include but not be limited to psychiatric, medical, nursing, psychological, social, rehabilitative and support services provided in the prevention, diagnosis, treatment and follow-up of mental disabilities, and in addition, may include those services designed to prevent mental disabilities or be of a consultative, informational or educational nature about mental disabilities. It is under this authorization that the Providence Center, Inc., operates.

It is the intent of the law that an individual's eligibility to receive any public or private assistance be exhausted prior to the expenditure of state and local monies.

The Center's Administrative Offices are located at 951 North Main Street, Providence, Rhode Island.

The Center is governed by a board of Trustees who are the members of the Providence Community Mental Health Board, appointed by the City of Providence. Presently, there are nineteen trustees of which seven members of the Board of Trustees shall constitute a quorum at all meetings of said Board.



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Ms. Kathleen M. Spangler, Acting Director
Department of Mental Health, Retardation and Hospitals
Barry Hall – 1
14 Harrington Road
Cranston, RI 02920-3080

Dear Ms. Spangler:

We have performed the procedures enumerated below, which were agreed to by the Department of Mental Health, Retardation and Hospitals (MHRH) and the Providence Center, Inc., (Center), solely to assist the users in evaluating management's assertion about the Center's compliance with the Division of Behavioral Healthcare Service's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers to the matching grant contracts and with the financial terms and conditions contained within the Community Support, Residential and Acute Alternatives Services contracts during the fiscal years ended June 30, 2003 and 2002, included in the accompanying Report on Contract Compliance. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

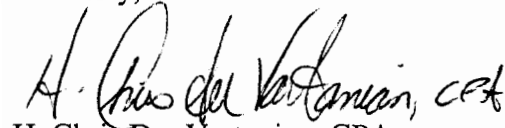
For purposes of this engagement we tested compliance with the above-mentioned specified requirements for determining matchable revenues, allowable costs, accuracy of reported activities and any excess funding on behalf of MHRH. Based on the application of the procedures referred to above, we became aware of excess revenues over expenses for the fiscal years ended June 30, 2003 and 2002 and an instance of noncompliance with the financial terms contained within the Community Support, Residential and Acute Alternatives Services contracts for the fiscal years 2003 and 2002. In addition deficiencies were noted with the management of Representative Payee client funds for the fiscal years ended June 30, 2003 and 2002. These matters are discussed in the accompanying "Findings" section of this report.

Ms. Kathleen M. Spangler, Acting Director
Page 2

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of MHRH and the Center and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "H. Chris Der Vartanian, CPA". The signature is fluid and cursive, with the initials "HCD" being prominent at the start.

H. Chris Der Vartanian, CPA
Chief, Bureau of Audits
March 17, 2004

HCD:pp

**DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
STATEMENT OF REVENUES AND EXPENSES
FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Community Support, Residential, and Acute Alternatives</u>	<u>Adult General Outpatient</u>	<u>Other Programs</u>	<u>Total</u>
<u>Revenues</u>				
MHRH	\$ 1,412,098	401,757	-	1,813,855
Other State & Federal	513,374	2,665,895	2,249,063	5,428,332
Title XIX Medicaid	9,091,142	732,251	2,327,578	12,150,971
Municipalities	216,000	54,000	2,167,166	2,437,166
Fund Raising & Contributions	-	-	59,612	59,612
Client Fees & Activities	175,368	90,687	17,708	283,763
Third Party Reimbursements	579,378	954,037	529,193	2,062,608
Managed Care & EAP	-	174,328	-	174,328
Consultations & Other Income	<u>308,152</u>	<u>79,914</u>	<u>505,012</u>	<u>893,078</u>
Total Revenues	\$ <u>12,295,512</u>	<u>5,152,869</u>	<u>7,855,332</u>	<u>25,303,713</u>
<u>Expenses</u>				
Personnel	10,469,968	4,021,923	6,245,511	20,737,402
Operating	1,638,349	812,006	1,289,129	3,739,484
Purchased Equipment	<u>78,152</u>	<u>80,551</u>	<u>137,462</u>	<u>296,165</u>
Total Expenses	\$ <u>12,186,469</u>	<u>4,914,480</u>	<u>7,672,102</u>	<u>24,773,051</u>
Excess (Deficiency) of Revenues Over Expenses	\$ <u><u>109,043</u></u>	<u><u>238,389</u></u>	<u><u>183,230</u></u>	<u><u>530,662</u></u>

See accompanying notes to financial information.

**DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
STATEMENT OF REVENUES AND EXPENSES
FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Community Support, Residential, and Acute Alternatives</u>	<u>Adult General Outpatient</u>	<u>Other Programs</u>	<u>Total</u>
<u>Revenues</u>				
MHRH	\$ 1,256,892	393,913	-	1,650,805
Other State & Federal	705,551	2,889,797	1,611,011	5,206,359
Title XIX Medicaid	8,051,995	609,605	2,534,698	11,196,298
Municipalities	239,416	60,584	1,881,884	2,181,884
Fund Raisig & Contributions	-	150	8,835	8,985
Client Fees & Activities	183,236	155,282	21,580	360,098
Third Party Reimbursements	445,333	644,831	397,495	1,487,659
Managed Care & EAP	-	198,050	-	198,050
Consultations & Other Income	379,885	37,961	445,160	863,006
	<u>11,262,308</u>	<u>4,990,173</u>	<u>6,900,663</u>	<u>23,153,144</u>
Total Revenues	\$ 11,262,308	4,990,173	6,900,663	23,153,144
<u>Expenses</u>				
Personnel	9,683,157	4,038,709	5,592,116	19,313,982
Operating	1,472,730	775,250	1,045,461	3,293,441
Purchased Equipment	104,938	41,803	23,257	169,998
	<u>11,260,825</u>	<u>4,855,762</u>	<u>6,660,834</u>	<u>22,777,421</u>
Total Expenses	\$ 11,260,825	4,855,762	6,660,834	22,777,421
Excess (Deficiency) of Revenues Over Expenses	\$ 1,483	134,411	239,829	375,723

See accompanying notes to financial information.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
 THE PROVIDENCE CENTER, INC.
 STATEMENT OF OPERATIONS - TITLE XIX PROGRAM
 FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

	Fiscal Year Ended June 30	
	2003	2002
<u>Beginning Balance</u>	-	-
Revenues Received Designated for Programs	<u>12,150,971</u>	<u>11,196,298</u>
<u>Revenues Applied:</u>		
Community Support and Related Services	9,091,142	8,051,995
Adult General Outatient Program	732,251	609,605
Other Programs	<u>2,327,578</u>	<u>2,534,698</u>
Total Applied	<u>12,150,971</u>	<u>11,196,298</u>
<u>Ending Balance</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial information.

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DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
STATE MATCHING PROGRAM
DETERMINATION OF OVER (UNDER) PAYMENT OF STATE MATCHING FUNDS
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

	Fiscal Year Ended June 30	
	<u>2003</u>	<u>2002</u>
<u>State Funds Allocated</u>		
Adult General Outpatient Services	300,331	301,673
Community Support, Residential and Acute Alternatives	<u>300,331</u>	<u>301,673</u>
	<u>600,662</u>	<u>603,346</u>
 Matchable Revenues - Fiscal Years Ended June 30, 2001 and 2000	 <u>1,860,071</u>	 <u>1,625,808</u>
 <u>Determination of Over (Under) Payment of State Funds:</u>		
State Funds Allocated (Note 2)	600,662	603,346
Deduct lesser of:		
(a) Applicable Percentage of Matchable Revenues	600,662	603,346
(b) State Funds Allocated	600,662	603,346
Maximum Support - lesser of A or B (Note 3)	<u>600,662</u>	<u>603,346</u>
Over (Under) Payment of State Matching Funds	<u>-</u>	<u>-</u>

See accompanying notes to financial information.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

NOTES TO FINANCIAL INFORMATION

Note 1 – Significant Accounting Policies

Basis of Accounting:

The financial information is presented on the accrual basis of accounting which is in compliance with the Division of Behavioral Healthcare Service's Rules, Regulations and Standards for Funding of Matching Grant Programs in Community Mental Health Centers. Under this basis, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Note 2 – State Funds Allocated – Exhibit D

These amounts represent the total of the matching grants encumbered by the Department of MHRH for the operation of the Providence Center, Inc.

Note 3 – Maximum Support – Exhibit D

State funds allocated are subject to the lessor of the following:

- A. 32.292% of the matchable revenue for the fiscal year ended June 30, 2001 and 37.111% of the matchable revenue for the fiscal year ended June 30, 2000.
- B. The maximum state funding as determined above cannot exceed the dollar amount originally allocated for the respective fiscal year.

Note 4 – Other Programs – Exhibits A and B

These amounts represent funding from sources other than MHRH Division of Behavioral Healthcare Service's mental health programs.

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
STATE MATCHING PROGRAM
SCHEDULE OF MATCHABLE AND NONMATCHABLE REVENUES
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

	Fiscal Year Ended June 30	
	<u>2003</u>	<u>2002</u>
<u>State of Rhode Island</u>		
Adult General Outpatient Program	\$ 401,757	393,913
Community Support, Residential and Acute Alternatives	<u>1,412,098</u>	<u>1,256,892</u>
Total State Funds Allocated	1,813,855	1,650,805
 <u>Matchable Revenues</u>		
Municipalities	2,437,166	2,121,964
Contributions & Fund Raising	<u>112,068</u>	<u>8,985</u>
Total Matchable Revenues (For Fiscal Years Ended June 30, 2005 and 2004)	2,549,234	2,130,949
 <u>Nonmatchable Revenues</u>		
Title XIX Program	12,150,971	11,196,298
Other Revenues	5,375,876	5,266,279
Client Fees & Activities	283,763	360,098
Third Party Reimbursements	2,062,608	1,487,659
Consultations & EAP	<u>1,067,406</u>	<u>1,061,056</u>
Total NonMatchable Revenues	<u>20,940,624</u>	<u>19,371,390</u>
Total Revenues (Exhibit A & B, Respectively)	\$ <u>25,303,713</u>	<u>23,153,144</u>

DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS
THE PROVIDENCE CENTER, INC.
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

FINDINGS

Net Operations

Net operating results for the Center's programs for the fiscal years ended June 30, 2003 and 2002 are summarized below:

Revenues Excess (Deficiency) – Exhibits A and B

<u>Program</u>	<u>2003</u>	<u>2002</u>
Community Support, Residential, And Acute Alternatives	\$ 109,043	\$ 1,483
Adult General Outpatient	238,389	134,411
Other Programs	<u>183,230</u>	<u>239,829</u>
Total Revenue	\$ <u>530,662</u>	\$ <u>375,723</u>

Community Support, Residential, and Acute Alternatives

The Community Support, Residential, and Acute Alternatives Program Contracts had excess revenues in the amounts of \$109,043 and \$1,483 for the fiscal years ended June 30, 2003 and 2002, respectively, (see Exhibits A and B).

The Department of MHRH determines the use and disposition of excess revenues.

Group home staff compute and collect resident contributions. Four clients were underpaying resident contributions for several months, of which, one client was underpaying \$211 monthly. Provision 5.B. appearing in Section B of the Community Support, Residential, and Acute Alternatives Contract relating to financial terms and conditions states in part:

“Resident Contribution for Room and Board Expense. It shall be a condition of admission to the residence that residents agree to the following schedule of payments.”

“a. Sixty-five (65%) of unearned income such as SSI, GPA, etc.”

Recommendation

1. To ensure compliance with the above provision, MHRH officials should request the Center to transfer the computation and collection of resident contributions to its fiscal staff.

State Matching Program

It was determined that there was no over or under payment of state matching funds during the period audited. (See Exhibit D)

Matchable Revenues were examined for fiscal years ended June 30, 2003 and 2002 and are summarized as follows:

Municipal Revenues	\$ 2,437,166	\$ 2,121,964
Fund-Raising & Contributions	<u>112,068</u>	<u>8,985</u>
Total Matchable Revenues	\$ <u>2,549,234</u>	\$ <u>2,130,949</u>

Funds received in the fiscal years ended June 30, 2003 and 2002 will be the basis for determining state funds allocated by the Department of MHRH for the subsequent fiscal years ending June 30, 2005 and 2004, respectively.

Representative Payee Program

The Center manages, under the policies of the Social Security Administration's Representative Payee Program, Social Security and SSI payments made to approximately 200 active clients.

A sampling of Representative Payee accounts, which are managed by the Center's program staff, disclosed the following:

- Thirty-eight "stale" (not cashed) checks had not been written off for over one year.
- Documentation for payments made on behalf of Representative Payee clients was not available.

Recommendation

2. To ensure proper management and accountability of client funds MHRH officials should request that the Center transfer management of Representative Payee accounts to its fiscal staff.

Affiliated Corporations

The Center formed several nonprofit corporations which provide services adjunctive to the Center's programs. For the most part, the same Trustees service both the affiliates and the Center. A listing of the affiliates follows.

Grandview Realty, Inc.

This nonprofit corporation was formed in 1983 to own an apartment building which is used as a residence for chronically mentally ill clients served by the Center, and to administer the HUD Section 8 mortgage.

Standard Realty, Inc.

This nonprofit corporation was formed in 1982 to own and operate rental apartments for chronically mentally ill clients served by the Center.

Grandview Second Corporation

This nonprofit corporation was formed in 1989 to own and operate rental apartments for chronically mentally ill adult clients served by the Center.

ProMail, Etc.

This nonprofit corporation was formed in 1998 to sell services and products of workers in need of mental health care who are employed by the corporation.

Nashua Street Corporation

This nonprofit corporation was organized in 1999 to own and operate rental apartments for individuals with mental illness.

Community Care Realty, Inc.

Incorporated January, 2002 in order to fulfill HUD requirements regarding the ownership, operation, and maintenance of HUD financed apartments for the chronically mentally ill.